

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: General- Asset Allocation Review
And Discussion

ITEM NUMBER: 10

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: March 8, 2000

INFORMATION: X

PRESENTER(S): Mr. Emkin

EXECUTIVE SUMMARY

One of the 1999/00 objectives for the Investment Branch was to “Revise the Investment Management Plan to reflect modifications in the strategic asset allocation, investment objectives, and investment structure.” Pension Consulting Alliance (PCA), on a semi-annual basis, prepares a report identifying the asset allocation attribution and contribution. The report attempts to identify the value added or detracted associated with deviations from the strategic asset allocation targets and investment structure adopted in the Investment Management Plan.

This report is divided into five categories: (1) asset allocation policy, (2) capital market performance results, (3) portfolio performance results, (4) attribution of performance in dollars, and (5) performance contribution detail. The final category, performance contribution detail has four specific plan sponsor decisions.

1. Policy Deviation – Adhering to or deviating from asset allocation policy. It is calculated by determining the impact of the difference between the strategic asset allocation and the actual asset allocation.
2. Structure Difference – Selecting and maintaining a specific asset class structure. It is calculated by determining the impact of the difference of the benchmark structure and the structure policy.
3. Funding Activities – Funding each component of an asset class. It is calculated by determining the impact of the difference in implementing the asset allocation compared to the structure policy.
4. Manager Selection Decisions – Selection and funding of the individual investment managers. It is calculated by determining the difference between individual manager performance and manager benchmarks.

Attachment 1 reviews the previous twelve-month period and Attachment 2 reviews the past thirty-month period. The thirty-month period was selected because it corresponds to the appointment of Mr. Mitchell as the Chief Investment Officer.

PCA has determined that over both time periods reviewed the actual CalSTRS investment performance was significantly higher than the policy portfolio performance. For the twelve-month period ended December 31, 1999, the actual portfolio performance was 3.2% (320 basis points) higher than the policy portfolio. For the thirty-month period ended December 31, 1999, the actual portfolio performance was 2.3% (230 basis points) higher than the policy performance. The performance difference was \$2.8 billion and \$4.5 billion respectively.

ATTRIBUTION OF CalSTRS' INVESTMENT PERFORMANCE
1 Year period, ending 12/31/99

CalSTRS Asset Allocation Policy Since 7/1/97

Asset Class	% Allocation
Domestic Equities	38
Foreign Equities	25
Public Equity	63
Realty	5
Venture	5
Private Equity	10
Global	0
Fixed-Income	26
Cash	1
Stable Assets	27
Total	100
Equity Assets	73
Stable Assets	27

One Year Results

Capital Market Performance Results

Benchmark	12 Month Return-%
Equities	
Domestic (Russell 3000)	20.9
(S&P 500)	21.0
(Russell 2500)	24.2
International	
MSCI-ACWIxUS Free	30.9
MSCI-EAFE Free	27.0
MSCI Europe	15.9
MSCI PacBasin Free	57.6
MSCI Emerging Mkts Free	66.4
Fixed-Income	
Domestic (Salomon LPF)	(4.0)
Global (SBWGB)	(4.3)
Cash (90-day Treasuries)	4.7

One Year Results (cont.)

Portfolio Performance Results

Benchmark	12 Month Return-%
CalSTRS Actual Portfolio	18.4
CalSTRS Policy Portfolio	15.2
Difference	3.2

Attribution of Performance in Dollars

		\$-millions Gained/(Lost)
Overall Results-12 mos., end. 12/31/99		
	Actual Portfolio	17,139
	Policy Portfolio	<u>14,328</u>
	Difference	2,811
Difference Explained		
	Impact of Deviation from Policy	490
	Impact due to Asset Class Structure Diff. than Benchmark	374
	Impact of Funding Activities	(209)
	Impact of Selection Decisions	2,156

Performance Contribution Detail--\$ million

Asset Class	Policy Deviation	Structure Difference	Funding Activities	Mgr. Selection Decisions	Totals
Fixed-Income	103	(2)	(2)	(30)	69
Global	(68)	0	120	0	52
Private Equity	202	0	(504)	1036	734
Liquidity	(1)	0	1	3	3
Domestic Equity – Passive	291	608	(44)	(83)	772
Domestic Equity – Active	(26)	61	75	64	174
Int'l. Equity – Passive	436	(191)	186	12	443
Int'l. Equity – Active	(454)	(102)	(44)	1154	554
Currency	7	0	3	0	10
Totals	490	374	(209)	2156	2811

ATTRIBUTION OF CalSTRS' INVESTMENT PERFORMANCE
2 ½ Year period, ending 12/31/99

CalSTRS Asset Allocation Policy Since 7/1/97

Asset Class	% Allocation
Domestic Equities	38
Foreign Equities	25
Public Equity	63
Realty	5
Venture	5
Private Equity	10
Global	0
Fixed-Income	26
Cash	1
Stable Assets	27
Total	100
Equity Assets	73
Stable Assets	27

2 ½ Year Results, ending 12/31/99

Capital Market Performance Results

Benchmark	2 ½ Ann. Year Return-%
Equities	
Domestic (Russell 3000)	23.0
(S&P 500)	24.3
(Russell 2500)	14.2
International	
MSCI-ACWIxUS Free	13.0
MSCI-EAFE Free	14.4
MSCI Europe	21.5
MSCI PacBasin Free	4.6
MSCI Emerging Mkts Free	(2.7)
Fixed-Income	
Domestic (Salomon LPF)	5.6
Global (SBWGB)	4.6
Cash (90-day Treasuries)	5.0

2 ½ Year Results (cont.)

Portfolio Performance Results

Benchmark	2 ½ Ann. Return-%
CalSTRS Actual Portfolio	16.7
CalSTRS Policy Portfolio	14.4
Difference	2.3

Attribution of Performance Contribution – in Dollars

		\$-millions Gained/(Lost)
Overall Results-2 ½ years, end. 12/31/99		
	Actual Portfolio	35,328
	Policy Portfolio	<u>30,813</u>
	Performance Contribution	4,515
Performance Contribution Explained		
	Impact of Deviation from Policy	764
	Impact due to Asset Class Structure Diff. than Benchmark	394
	Impact of Funding Activities	430
	Impact of Selection Decisions	2,928

Performance Contribution Detail--\$ million

Asset Class	Policy Deviation	Structure Difference	Funding Activities	Mgr. Selection Decisions	Totals
Fixed-Income	(117)	(2)	271	101	253
Global	(203)	0	278	0	75
Private Equity	98	0	(1085)	2039	1052
Liquidity	33	0	6	12	51
Domestic Equity – Passive	308	430	(25)	62	775
Domestic Equity – Active	50	(60)	14	(243)	(239)
Int'l. Equity – Passive	1001	(373)	965	(319)	1274
Int'l. Equity – Active	(426)	399	2	1276	1251
Currency	20	0	4	0	24
Totals	764	394	430	2928	4516